

DRAFT

MEMORANDUM FOR : Deputy Director (Support)

THROUGH : Director of Personnel

SUBJECT : Insurance Program of the Central
Intelligence Agency

REFERENCE : Memorandum for C/BSD/OP, from DD/S,
dated 5 June 1963, Subject: GEHA Group
Life Insurance Program. (Tab A)

1. Pursuant to referenced memorandum, a Task Force consisting

25X1 of [] Member; and

25X1 [] Member and Legal Advisor, submits the following

report on the Insurance Program of the Central Intelligence Agency.

The comments of the GEHA Board of Directors are attached as Tab ____.

2. The Task Force was appointed to examine certain aspects of
the GEHA Group Life Insurance Program -- aspects which were high-

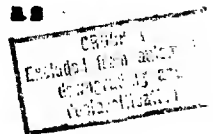
lighted in a memorandum for the record dated 2 May 1963 by Mr. [] 25X1

25X1 [] of the Office of General Counsel. (See Tab B) The Task

Force believed a broader examination than that suggested by [] 25X1

memorandum should be made. Hence, this report attempts to record as

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much of the history of the Agency's insurance program as was possible to assemble from old records or from the recollection of those officers who participated most actively in its early development.

3. Prior to World War II U. S. Government departments and agencies, as such, sponsored no life or health insurance programs. In isolated cases employee groups incorporated themselves under such as "The X Benefits and Relief Association" and secured the advantages of group life insurance. During the 1930's Group Hospitalization, Inc. (Blue Cross-Blue Shield) and Group Health Association were two organizations operating in the Washington area offering type of "group" health insurance. The GHI group was, in reality, a mass of smaller groups, each with a collector, or collectors, of premium payments. A U. S. Government agency, a public utility, or a department store, could have its "group". Management tolerated these arrangements for their inherent good and overlooked the sometimes full-time preoccupation of its employee who served as premium collector in return for which he or she received

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free insurance coverage.

4. During World War II, the Office of Strategic Services was staffed primarily by active duty military personnel. The civilian staff was able to participate, cover permitting, in the war-born "War Agencies Employees Protective Association" for the purchase of term life insurance. They were likewise able to participate in the local group health plans but the extent of participation is not a matter on which the Task Force can speak with any assurance.

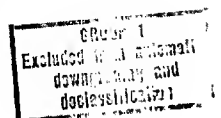
5. When OSS was abolished and the Central Intelligence Group created, the members of CIG had available to them the WAEPA life insurance and the two health plans - Group Hospitalization, Inc. (Blue Cross-Blue Shield) and Group Health Association. GHI, through employee collectors, received premium payments from CIG employees who were known as such, and adjudicated all claims in its Washington, D. C. office, regardless of where the expenses were incurred. Group Health Association, on the other hand, accepted membership from any individual in the District

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of Columbia and surrounding areas, which membership did not depend upon an identified employee group from a Federal agency or a private employer, ^{paying} The individual subscribers ~~paid~~ their premiums directly to GHA. The GHA plan was more than a hospitalization plan. It had a regularly salaried staff of doctors and nurses whose services were available at several clinics located in the D. C. metropolitan area. The services were limited to persons in the D. C. area and, therefore, was unavailable to persons outside that area.

6. The change from CIG to CIA on 18 September 1947 caused no change in the existing insurance plans or procedures. However, when the new DCI assessed the security implications in GHI methods of operations in the fall of 1947, he decreed that no new applications would be made to GHI and that a more secure means of providing health insurance for overseas personnel be devised. The reasons were obvious: (in a completely unclassified ^{basis} ~~area~~ GHI was accumulating not only the names of many CIA

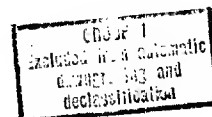
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employees and their families but their specific cities of assignment throughout the U. S. and the world and the physical and mental health problems they were experiencing .

7. In the winter and spring of 1947-48, the Office of Personnel undertook a complete review of the medical and hospitalisation insurance plans then in use by the Government and private industry. Based upon this review it was determined that a plan offered by the Mutual of Omaha Health and United Benefit Life Insurance Company of Omaha, Nebraska, ^{was the} most desirable. This determination was based upon that Company's assurance that all records pertaining to premium payments and audit of insurance claims would be carried out under the jurisdiction and within the confines of CIA. ^{group health} In order to qualify for the type of insurance offered by Mutual of Omaha, an organization had to meet a requirement established by the D. C. Insurance Commissioner, which was that 75% of the members ^{at least} ~~sixty percent~~ had to be insured. To reveal a number representing 75% of

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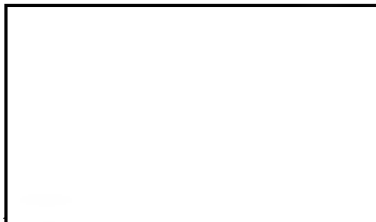


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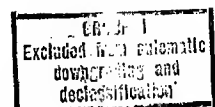
the strength of an organization would be to reveal the total size of the organization. ^{*Shure, in order*} To conceal the true size of CIA, ^{*a separate*} ~~the~~ organization known as the Government Employees Health Association was born. Through this device the Agency could acquire the advantages of low cost group health and life insurance plans without revealing the true strength of the Agency.

8. On 29 June 1948 GEHA was accepted as a corporation under the laws of the District of Columbia. The first meeting of subscribers to GEHA was held on 15 July 1948 at which the first directors were elected and who were:



On 27 July 1963 the Directors met with the newly appointed officers of the Corporation and GEHA began its operations.

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9. The first plan of insurance offered by the Agency to its employees through the device of GEHA was the health plan previously mentioned underwritten by the Mutual Benefit Health and Accident Association. The plan was effective 1 August 1948 with the understanding that 100% of the Association's members had subscribed. ~~The fact that~~ the first month's premiums showed twenty (20) members of the Association but after the initial shock, MBHAA fell to and carried out their part of the bargain. Their rates had been set on the basis of about 500 members of the Association and it wasn't too long before this number was reached and by 31 December 1949 the Association had 614 "active members". Those employees carrying GHI or GHA health plans were permitted to continue with that coverage.

10. By 31 December 1950 the MBHAA plan was well established and it was clear that the underwriter was making a good profit from the group which had then increased to over 700. Then followed the first exploration of health plans which another company might be willing to offer to GEHA

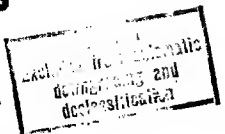
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group. After talking with several companies the conclusion was reached that the MBHAA plan was the best obtainable under the circumstances, fortified by increased benefits which MBHAA offered and which were accepted. By 31 December 1951 the membership had increased to nearly 1,000 and a year later to over 1,500. About that time some 1,400 other Agency employees were continuing their health coverage under GHI but the security problem still remained with GHI's method of operation. At the same time GHI offered better coverage at less cost. Part of the problem was solved temporarily by developing "Class A" and "Class B" accounts with GHI. The Class A accounts covered those Agency employees who had no cover to maintain and who could submit their claims directly to GHI. The Class B accounts covered those Agency employees who were covert or overseas and for whom the Insurance Branch of the Office of Personnel processed hospital and/or surgical claims. With this more secure arrangement, several hundred persons having the MBHAA plan switched over to GHI. At the same time there was considerable debate on the feasibility



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and advisability of the Agency, through GEHA, embarking on a "self insurance" ^{group health} plan, i. e., cut out GHI and MBHAA and let employees pay a premium directly to GEHA ^{as the insurer} and ^{Similarly} possibly incorporate a life insurance plan ^{might be developed} to cut out WAEPA.

11. In early 1954, when the Agency Career Service concept was being studied, an Insurance Task Force was appointed to examine the following problem:

"What employee and family indemnity and beneficial insurance coverage should the Agency arrange to have offered in order to remedy or alleviate any possible existing injustice, to alleviate personal and family concerns which dilute or distract from attention to mission, to demonstrate community of interest, and to promote the concept of career."

That Task Force produced a comprehensive report to the CIA Career Service Board which approved the recommended courses of action on

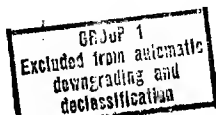
30 June 1954. The action approved, in which

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and employee benefit consultants participated, was two-fold:

- a. Offer a new group term life insurance policy with
- a maximum of \$15,000 principal sum and a maximum

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\$15,000 for accidental death and dismemberment;

b. Offer a new comprehensive health insurance plan

which had been developed between the Task Force

and the Mutual Health Benefit and Accident Association.

The United Benefit Life Insurance Company (UBLIC) was selected as the

underwriter for the term life policy and staff employees, staff agents,

contract agents, or detailed civilian or military personnel were invited

to purchase beginning 1 August 1954. Nine years later, 2,740 policies

were in force in a total amount of \$34,744,500.00. The MBHAA plan of

health insurance was greatly improved over the then existing plan and

was likewise offered effective 1 August 1954. Nine years later, more than

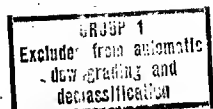
25X1 **[redacted] were being covered under this plan. In announcing**

25X1 **these plans the Agency Notice [redacted] 29 July 1954) observed:**

*** * ***

"b. It is the purpose of this Notice to describe the available life and health insurance plans to employees so that they will have adequate information on which to base their decisions concerning this important aspect of

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their welfare. In this connection, the Agency has developed these insurance programs in order to provide employees with better benefits and to avoid the following problems:

(1) Commercial insurance companies have become somewhat cautious about selling insurance to Agency employees because of the possibility of hazardous duty. As a result, some companies will insure Agency employees only for limited amounts and usually under conditions which preclude the payment of benefits as the result of hazards sometimes found in overseas areas.

(2) Because of security considerations, it is sometimes difficult to release sufficient information to insurance companies so that under their policies they can appropriately pay claims. "

* * * *

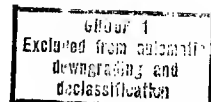
At 1 August 1954, the Agency's insurance program, available through

the legal entity of GEHA, consisted of:

--UBLIC term life insurance

--WAEPA term life insurance

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--MEHAA health insurance

--CHI health insurance

--Air Flight insurance (from 16 March 1954)

It should be noted that
With the passage of the Federal Employees Group Life Insurance Act

of 1954, all Agency employees could also purchase low-cost term life insurance to the nearest \$1,000 of their annual salary.

12. From a struggling but determined start the Agency's insurance program developed into a big ^{and interesting} business. Whereas the Confidential Funds Section of the Office of the Comptroller had carried the ball in the early years, "in addition to other duties", as on 30 June 1953 responsibility for administration of the program was transferred to the Director of Personnel.

A Board of Directors of GEHA had continued through the years, to meet the technical and legal requirements of the corporate entity. The Insurance Task Force was chaired by the Chairman of the GEHA Board, a man of strong convictions. As Chief Management Officer of the Agency he brought to bear a wealth of experience and viewed his role as Chairman of the

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Board as one which was later to cause some differences of opinion on the role of the Board vis-a-vis the role of the Director of Personnel.

The first official indication of this situation appears in a conclusion of the Board adopted at a meeting on 21 February 1955, as follows:

"5. In respect to the question considered by the Board as to the proper sphere of the Board's interest, conclusion was made as follows:

a. The Board is responsible for the Agency insurance program policy or policies. The Board is not concerned with any aspect of administration in respect to these policies in view of the fact that the Director of Personnel continues to assume these responsibilities.

The Board recognizes that the insurance program is basically a part of the general Agency personnel administration as such, and hence policy decisions made by the Board within the insurance program field must be compatible with overall Agency personnel policy. Advice in this connection would be secured from the Director of Personnel as needful, but a resolution of any difference of opinion must go to the DCI or his authorized representative."

The official statement of the Director of Personnel's authorities and responsibilities was substantially the same then as it is now:

"Provide additional services of common concern, including xxx insurance programs for Agency personnel xxx"

The By-laws of the Association [REDACTED] presently

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provides:

"The Board of Directors shall establish policy and be responsible for the proper administration and management of the affairs of the Association; and may adopt such rules and regulations for the conduct of its meetings and the management of the Association as it may deem proper, not inconsistent with law, these By-laws, or the operational and security requirements of the Central Intelligence Agency." (Article V, Section 7)

14. The minutes of a Board of Directors meeting held on 25 August 1955 contain the following item:

"7. A general discussion ensued wherein the duties of the President of GEHA were stated and the structure of the Board of Directors was reviewed. At this point, [redacted] stated that, in his opinion, the Officers of the Association should be persons within the Office of Personnel and preferably within the Insurance and Casualty Division in order that those individuals who were officially responsible for the administration of the insurance programs within the Office of Personnel would also be given administrative responsibility by the Government Employees' Health Association for carrying out the policies of the Association as determined by the Board of Directors. He also indicated that, in his opinion, the Board of Directors of the Association should be increased in number in order to permit greater representation from the various components of the Agency. There appeared to be general acceptance of [redacted] feelings in this regard, however, no official action was taken by the Board of Directors in this connection."

This excerpt is included in this report to show the anxious effort being made at the time to accommodate to a situation where there had developed a divided responsibility for the insurance program of the Agency.

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25X1 15. In May 1956 Greif Hospitalization, Inc. came up for more discussion by the Board. At that point Agency people still carried GHI health insurance. This seemed to present security problems, and in the opinion of the Board members and the officers of the Corporation, the benefits being offered by GHI were inferior to those available under the Association plan (MBHAA). The Security Advisor to the Board reported in June 1956 that an investigation of GHI had revealed that an employee of GHI had been in contact with a representative of a foreign embassy in an apparent effort to sell a list of names of CIA employees who were holders of the Class A GHI health insurance. After an unsuccessful effort to have GHI agree to making all CIA employees Class B (covert), the Deputy Director of Central Intelligence ordered that the GHI plan be discontinued, which action was effected 31 December 1956. Con-

25X1 versions were made, without penalty, to the Association plan. Subsequently, GHI removed all names of CIA people from their files, retaining only statistics.

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as a staff officer of the Director of Personnel, to provide insurance programs for Agency personnel. (This remark has reference to several recorded Board discussions on the subject of health and life coverage for

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When on 28 December 1956, a person representing himself as a "Staff Agent" but who was actually a Contract Employee (a Career Agent, to be precise) applied for the Association health plan he was enrolled by the Insurance Branch. When the President was informed of the case he wrote a memorandum to the Board, dated 4 January 1957. The Board directed the rejection of the application and return of the premium. Then a Board member recalled that Notice No. [REDACTED] dated 29 July 1954 was still in effect, and this Notice - Agency policy - clearly stated that Contract Employees were eligible to subscribe. The Board promptly moved, seconded and unanimously voted:

"That the Chairman, in his capacity as Chief, Management Staff, take the necessary steps to rescind Agency Notice

[REDACTED]."

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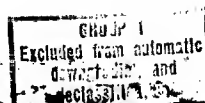
18. The U-2 pilots produced more than strategic intelligence on the Soviet Union. They were the unwitting cause of ruptures between men and offices which only time could heal. As an immediate after-effect of the harsh dispute, the Deputy Director (Support) attempted to define the respective roles of the Chairman of the Board and the Director of Personnel. The Board, at its 12 February meeting, voted to invite the Director of Personnel to serve as a "consultant" to the Board and there was some discussion of appointing the Director of Personnel as a Board member, later to be elected Chairman. (No other mention is made in the minutes of this idea.) On 18 March 1957 the Deputy Director (Support) addressed a memorandum jointly to the Chairman of the Board and the Director of Personnel which is quoted below:

"1. This will confirm and make a matter of record the conversations which have taken place among Colonel White, Mr. Houston, [redacted]

2. It has been agreed that:

a. GEHA will continue to function in accordance with the present Certificate of Incorporation and By-laws;

b. amendments to these documents will be subject to review and approval by the Director of Personnel;



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c. the Chairman of the GEHA Board will inform the Director of Personnel of all contemplated actions of the Board and the Association, will report actions taken, will be guided by the Director of Personnel in all matters affecting the interests of the Agency, and will represent Agency positions as set forth by the Director of Personnel at Board and Association meetings;

d. Should the Board Chairman and the Director of Personnel be unable to reconcile their positions with regard to any matter, appeal may be made to the undersigned by one or the other or both. "

At a meeting on 26 March 1957, the Board had some reservations about

the "agreement" and wanted some changes made. One member remarked:

"I would like to see a recognition of the fact that we are also operating under the corporate laws of the District of Columbia and we cannot surrender certain responsibilities to the Director of Personnel as a corporate organization. "

Withdrawing his 18 March 1957 memorandum, the Deputy Director (Support)

went along with a new statement which he again addressed jointly to the

Chairman of the Board and the Director of Personnel dated 13 May 1957:

"1. The Government Employees Health Association is a corporation established under the laws of the District of Columbia for the purpose of providing to eligible employees of the Central Intelligence Agency insurance programs which will meet the Agency's requirements for coverage and security.

2. The Board of Directors of GEHA under the present Certificate of Incorporation "shall establish policy and be responsible for the proper administration and management of the affairs of the Association; and may adopt such rules and regulations for the conduct of its meetings and the management of the Association as it may deem proper, not inconsistent

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with law, these By-laws, or the operational and security requirements of the Central Intelligence Agency". This provision affords the Board a dual responsibility. In fulfillment of this responsibility, the GEHA Board will ensure that all of the Association's policies and procedures are in the interest of the policyholders and are clearly consistent with Agency policy. To this end, the Board will look to the Director of Personnel for guidance as necessary on all matters of Association business which have policy implications for the Agency.

3. The Director of Personnel will through the Chairman keep the Board informed of Agency policy, programs or operations which have policy implications for the Association.

4. In order that the Director of Personnel may fulfill his functional responsibilities for the insurance programs for the Agency, the Board, through its Chairman and the Annual Association's Report, will keep the Director of Personnel informed of Association activities and requests for support.

5. No change will be made in the GEHA Certification of Incorporation or the By-laws without coordination with the Director of Personnel.

6. It is expected that in managing the Association, the Board will continue to study opportunities to extend GEHA insurance coverage. In addition, from time to time, the Director of Personnel may request the Board to make studies of other insurance programs for CIA employees."

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19. The Deputy General Counsel was also concerned with the way things were going and commissioned a member of OGC to study the problem "with the objective of more precisely defining the substantive nature of GEHA and its function within and ^{relative} to the Central Intelligence Agency". A 14-page memorandum (with 23 attachments) dated 7 October 1957 resulted from a comprehensive study by [REDACTED]

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In commenting on the second DD/S memorandum quoted in the preceding paragraph, it was observed:

"The Board of Directors still can reject any application for membership and thus can control coverage. The Board does not acknowledge the Director of Personnel as the Agency's exponent of insurance policy. The Board does not use the Agency's legal staff in the conduct of its day-to-day corporate business, choosing rather to have a de facto house counsel. The Board views itself as the manager of a portion of Agency personnel policy, if not the formulator of it, and as such issues instructions to Agency administrative officials. The Board has shown a tendency to think in competitive terms and otherwise manifest a commercial approach to the operations of GEHA."

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[REDACTED] memorandum explored many aspects of the U-2 pilot coverage

under UBLIC and contains the following summation:

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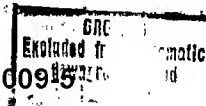
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"My observations of the beginnings and growth of GEHA leads me to conclude that it was spawned by the Agency and nurtured by it to provide employees with a service they could obtain elsewhere only with difficulty and to provide a benefit to help fill the space left when hazardous duty pay was rejected. GEHA is not a commercial venture; it is a service organization. Its function is not to "sell" insurance but rather to make it available to those who need it. Taken to the final simplification the AQUATONE issue was the result of the Board's refusal to insure a group of employees who sorely needed insurance, a refusal grounded on a fear of increasing premiums of those persons already enjoying coverage. This is commercial reasoning. But as a service organization GEHA is to Agency employees much as a Government is to the citizenry: there will be some which are considered necessary but which do not directly benefit every person; nevertheless, the cost must be borne by the body politic. In short, it is just part of the deal that low-risk policyholders to a certain extent "carry" high-risk policyholders."

25X1 One of more important contributions was the discovery that

GEHA was incorporated under a provision of D. C. law which did not authorize it to contract ^{for} life insurance coverage for its members. This defect was legally remedied on 16 September 1958 when the Board amended its Certificate of Incorporation which was filed 29 September 1958 with the D. C. Superintendent of Corporations. But the real dispute was not then brought up for a re-hearing - that of the role the Board of GEHA should play in relation to the Agency's insurance needs, and whether a sound

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decision had been made in the manner in which

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be given insurance coverage under the PUBLIC policy.

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20. On 6 February 1958, [] was elected

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Chairman of the Board, a post he was to hold until 30 August 1963. Be-

ginning with this meeting, the Secretary of the Association again began

attending meetings of the Board, a practice which had been discontinued

by the Chairman beginning with the 12 March 1957 meeting. []

25X1

having served throughout the period of dispute as a Director of GEHA, was

careful to see that the Director of Personnel was included in ^{most} ~~all~~ discussions

involving the Agency's insurance program. But the Board, under

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[] Chairmanship seemed to continue to impinge, at times,

on the responsibilities of the Director of Personnel where, for example,

(as reported in the minutes of a regular meeting of the Board on 25

February 1959) he decided to himself write Mutual of Omaha requesting a

meeting with the Board to discuss a special health insurance contract for

employees serving abroad. Again, as reported in the minutes of a Board

meeting on 13 May 1959 it is recorded that "Finally the Board decided that

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[] should visit the Home Office in Omaha, Nebraska, and obtain

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Mutual's proposed rates for the following two plans: * * *

21. The Federal Employees Health Benefits Act of 1959 was approved by the President on 28 September 1959 and provided that the enrollment of employees and annuitants in health benefits plans and the withholding and payment of contributions would take effect on the first day of the first pay period beginning on or after July 1, 1960. This Act brought under U. S. scrutiny the health benefits plans being offered to employees of the Federal Government. It authorized the Civil Service Commission to contract for, or approve, one service benefits plan, one indemnity benefit plan, comprehensive medical plans, and employee organization plans. The Blue Cross-Blue Shield organization captured the service benefit plan and the AETNA Life Insurance Company captured the indemnity benefit plan. The Commission ^{approved} appeared a host of comprehensive medical plans operating throughout the country, (example-Group Health Association, Inc. of the District of Columbia) and quite a few employee organization plans, the Association plan of GEHA underwritten by Mutual of Omaha being one.

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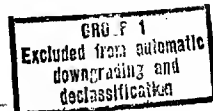
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GEHA therefore serves to qualify our health insurance plan under the Act and the Civil Service Commission exercises an overseeing role to assure that the Association Plan is in line with costs and benefits being extended to U. S. Government employees at large. *By this qualification* ~~Just as important is~~ the U. S. Government contribution to the total premium required to purchase the group plan. *(becomes legal)* The Board participated actively in qualifying the Association Plan under the Act, and the Chairman, in a memorandum to the Board dated 14 October 1959 stated:

"1. A meeting will be called shortly to discuss the Board's position concerning negotiations with the Civil Service Commission on the GEHA Program. There is attached an outline of factors to be considered in such negotiations. The Board must establish its necessary requirements and provide guidance on alternatives that may develop in the negotiations. The position of the Board should be approved by the Agency.

2. The Board now has the opportunity of providing Agency employees with several plans for hospitalization and major medical coverage. The Board has discussed such plans in the past in considerable detail and each member should be conversant with the practical elements involved. The GEHA hospitalization and this factor will have a bearing on our proposed future plans. In this regard the Board members should consider that since the Government is now providing, through the new bill, opportunities to employees for extensive hospitalization and major medical coverage, the Government is not likely to extend the benefits it presently provides Federal employees under the overseas medical benefits program."

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The Board had grown so accustomed to thinking of itself as having the primary responsibility for providing an insurance program for the Agency that it sometimes overlooked, consciously or unconsciously, the fact that the Director of Personnel was the Agency officer charged officially with that task. As a further illustration: During the first eleven months of the first contract year for health insurance under the Federal Employees Health Benefits Act of 1959, Mutual of Omaha found that premiums were inadequate to cover expenses being incurred. The Civil Service Commission agreed that an increase in premium rates was necessary and warranted. But it was the Chairman of the GEHA Board who recommended DDCI approval of the rate change, not the Director of Personnel. True, the Director of Personnel, the General Counsel, and the Deputy Director (Support) concurred, but handling the matter in this fashion further emphasized the existing duality of responsibility.

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22. On 16 March 1962 by the Agency announced ^{a group} ~~a group~~

term life insurance plan for "certain contract personnel". The Agency determined that:

"2. Eligibility

a. Contract employees and contract agents working on a full-time basis who have not reached their 60th birthday are eligible for this insurance. Participation is generally limited, however, to the following:

(1) Full-time contract employees who are U. S. citizens or resident aliens and whose employment relationship is comparable to that of appointed employees;

(2) Career agents who are U. S. citizens or resident aliens and whose operational relationship with the Agency as well as their cover and security will logically permit the application of the insurance."

*In addition to the notice
in addition to the notice*

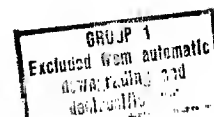
~~The Agency~~ delegated to the GEHA Board of Directors the authority to

pass upon acceptance of agent personnel under this plan. The Notice also

contains the following:

"The agreement with the underwriter stipulates that the insured persons will be "standard risks" whose assigned duties are not significantly more hazardous than those of staff personnel. Questions as to eligibility in individual cases should be referred to the Insurance Branch."

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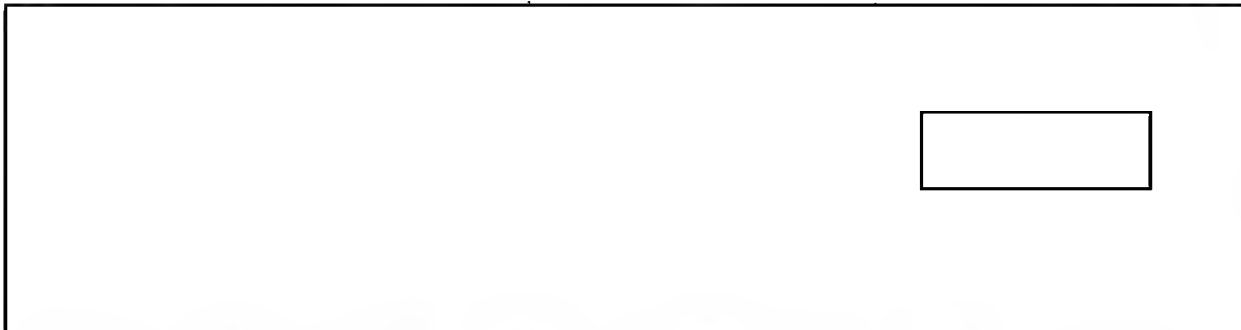
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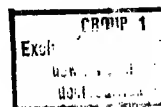


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the action taken by the Chairman of the GEHA Board asked "Is not this properly a determination for the Agency to make?" Our review leads us to the conclusion that the Notice (since expired) announcing the availability of the insurance plan was defective in one or more important respects and that in future, greater care must be given to specifying respective responsibilities in announcements affecting the insurance program. Not only must the Board's responsibility be more precisely defined but there must be present the opportunity for the Agency to meld its operational requirements into its insurance structure with due regard for the interests of employees at large.

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23. Referring again to [redacted] memorandum, she observed that the contract for the plan of insurance for contract personnel did not include any reference to what would be a "standard risk", and that the carrier has



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the right to change the premium rates on a monthly basis if the claims experience was unfavorable.

How the "standard risk" concept came into existence, with respect to this contract is lost in a miasmal mist, and as observed, 25X1 the concept is nebulous at best. We suggest that even after 15 years of experience with an Agency insurance program an attempt at definition would produce as many variations as there are draftsmen. We favor an approach which retains the element of complete flexibility to enable men of good will to assess all known facts and to then decide whether operational, or necessary security, or personal considerations make it desirable to cover one person or a group of persons with available insurance.

The second point, that of monthly premium charges, is more easily disposed of. In discussion with the underwriter, we were informed that the Company's right to change premium rates as stated in the contract

"On the first policy anniversary and upon each premium due date thereafter,

***" is standard terminology and refers to the possibility of an annual

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change, not a monthly change. This policy, unlike the first UBLIC policy, is a pre-printed form with blanks which are filled in when the policy is issued. Unless we wish to ask for a complete rewrite in manuscript form, we see no objection to the present form.

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~~to be the effect of premium rates on the policy and the effect of the~~

~~200~~

24. has doubts about the legal effect of a letter dated

November 15, 1956 addressed to GEHA by Mr. Joseph E. Jones, General

Agent of UBLIC which is quoted below:

"To eliminate any doubt in your minds or ours regarding the underwriting of your group, we would like to again state our position.

1. Our agreement was entered into with the definite understanding that we were to cover normal hazards of the Intelligence business, accepting an occasional hazardous risk by a full-time employee, and an operator entering into this extra-hazardous situation only on a very occasional basis.

2. It was further understood that we were not to cover extra-hazardous operations on a continuing basis. (It would be well to note Provision No. 3 in the Supplementary Provisions on the Master Contract.)

3. A letter sent from me in 1954 stated that the company must rely wholly and completely upon the integrity of the men administering this case.

4. These conversations were held with our First Vice President, Mr. Gale E. Davis, and Mr. A. W. Randall, Chief of Group Operations, myself, and your representatives. We very definitely excluded any jet operations or extra-hazardous flights.

We hope that the views expressed above coincide with your understanding."

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We share doubts. The UBLIC contract contains no ex-
 clusions of this nature. But a "good faith" arrangement between the
 Agency and Mutual of Omaha has existed for many years and there can be
 no question whatever that there has been a conscious attempt on both sides
 to deal candidly and fairly with each other. Mutual of Omaha stepped
 forward in 1948 to offer us a health insurance plan to be administered on
 our terms - something no other company was willing to do. Over the years
 we have expanded our dealings to include many other forms of desirable
 insurance. We have not, therefore, "dealt at arm's length". So, while
 the November 15, 1956 letter may have absolutely no legal effect on us,
 it does have a moral effect. How then, do we dispose of it? The answer,
 we believe, is to be found in the fact that since 1956 we have continued our
 close association with the company and through their cleared representatives,
 Messrs. Jones and Randall, we have tried to implant the tacit acceptance
 of our unique and unusual occupations. For example, in recent dealings
 with these two men, the President of GEHA has emphasized that the Agency

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views the UBLIC contract as one in which we can now cover any risk we feel should be covered. This leaves to the Agency's discretion, whether UBLIC should pay for a given death or deaths or whether the Agency, with due regard for the interests of all other UBLIC policyholders should share in the payment of death claims. Referring to our earlier views on a definition of "standard risk", we would have the same reservations on trying effectively to define "hazardous" "extra-hazardous" "super-hazardous", ~~and~~ and the like. The degree of risk to which a person is exposed has to be purely and simply that which the Agency, in its best judgment, feels is warranted under the circumstances. *We see no need to now respond to the 1956 letter.*

25. Events have overtaken comments respecting the adequacy of the present UBLIC term policy. A study has almost been completed by the Insurance Branch, working with the underwriter, to revise and update this valuable policy. In the study, an effort has also been made to compare the UBLIC policy with what other suitable companies are willing to offer. The results of this study will come forward in due time.

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25X1 26. [] questions whether the underwriter should have the

right of inspection of Agency insurance records and the right to medical examination and autopsy. The UBLIC policy ^(for appointed employees) confers no right of inspection

of Agency records but the contract employee policy does. ~~This is not~~

~~considered and UBLIC officials~~

[] The right to medical examination and autopsy is not objectionable. The right of medical examination would arise during pendency of a claim. In either case the good faith relationship would be called into play if operational or security considerations dictated.

27. The first UBLIC contract covering staff types was issued to

"GEHA". The second UBLIC contract, covering contract types, was issued

25X1 to GEHA Contract Employees. [] has a good point with respect

to the latter since in fact, it is the same "GEHA" which is the policyholder.

This should be corrected []

28. The conclusion of the Office of General Counsel as to whether

GEHA should be re-incorporated in Virginia is

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29. In addition to the desirable corrective actions already discussed in this report, there are others having broader implications which should also be considered. They are:

a. Amendment of GEHA By-laws.

(1) Article II - Qualifications for Membership.

Present:

"Section 1. The membership shall generally be limited to Staff Employees, Staff Agents and Civilian and Military details to the Central Intelligence Agency. However, upon the specific approval of the Board of Directors, certain Contract Employees may also be eligible for GEHA membership. "

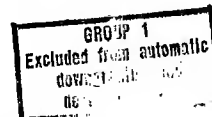
"Section 2. Any person who is eligible for membership must make application therefor in writing. The Board of Directors, or their duly authorized representatives, must accept or reject any such application, and such action thereon shall be final. Retention of membership shall be at the discretion of the Board of Directors. "

Proposed:

"Section 1. Membership in the Association shall be as determined by the Central Intelligence Agency. "

"Section 2. Any person declared eligible for membership must make application therefor in writing, to the President of the Association, or his designee. Membership shall continue for so long as the person is authorized to subscribe to a plan of insurance for which the Agency declared him eligible." *by the Agency*

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(2) Article V, Section 7 - Board of Directors.

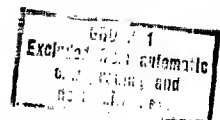
Present:

"Section 7. The Board of Directors shall establish policy and be responsible for the proper administration and management of the affairs of the Association; and may adopt such rules and regulations for the conduct of its meetings and the management of the Association as it may deem proper, not inconsistent with law, these By-laws, or the operational and security requirements of the Central Intelligence Agency."

Proposed:

"Section 7. The Board of Directors shall be responsible for providing the Director of Personnel of the Central Intelligence Agency with advice and guidance on the suitability and acceptability of plans of insurance developed to satisfy the Agency's specific needs; and may adopt such rules and regulations for the conduct of its meetings and the management of the Association as it may deem proper, not inconsistent with law, these By-laws, or policy and operational and security requirements of the Central Intelligence Agency."

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